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SUBJECT: SOUTH AFRICA: FINANCIAL INTELLIGENCE CENTRE'S  
FIRST FULL YEAR REVIEW

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Internet distribution.

1. (U) Summary. South Africa's Financial Intelligence Centre (FIC) released its 2003-04 Annual Report in early October. In its first full year of operation, the FIC received almost 7,500 suspicious transaction reports (STRs). The FIC is now turning its attention to raising the quality of STRs, recruiting and training its employees, and improving coordination with law enforcement agencies. Still pending is terrorist financing legislation that mandates the seizure of terrorist assets. As they build their institution, FIC officials seem very open to U.S. training programs and exchanges. The complete annual report may be found at: <http://www.fic.gov.za> under "Documents." End Summary.

#### Suspicious Transaction Reports

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2. (U) On October 4, South Africa's Financial Intelligence Centre (FIC) released its annual report covering 2003-04. In its first full year of operation the FIC received 7,480 suspicious transaction reports (STRs) through March 2004. The number of reports exceeded what was anticipated and placed South Africa "at the higher end of international experience." The critical statistic was how many STRs led to criminal investigations, but the FIC was not publicizing this figure. (Comment: We believe that this number is very low. End Comment.)

3. (U) An FIC official admitted to Econoff that the quality and consistency of STRs needed to be improved and that for this to happen, training was key. While all South African banks received general guidelines on how to train their staff, it was up to each to implement a training program. At the upper end, one of the largest South African banks had managed to train nearly 95% of its employees. Training was essential if the FIC was to obtain complete information on suspected criminal activity.

4. (U) During the past year, the FIC averaged between 500 and 700 STRs monthly. Money remitters (i.e., wire transfer services) and banks submitted the bulk of them -- 4,079 and 2,732 reports, respectively. Other reports came from coin dealers, individuals, casinos, brokers, and law enforcement agencies. These sources mirrored international experience. Normally, financial institutions collected STR information manually before management determined whether a suspicious transaction should be reported. The FIC received over 90% of all STRs electronically with the remaining sent by fax or delivered by hand. Most South African banks were aware of automated software that could assist them with the internal information collection and reporting process, but have not yet invested in it.

#### Complaints

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5. (U) Both FIC and Banking Council officials commented on the difficulty that banks had transferring money if it went through a U.S. institution. This difficulty was because of the disparity between the U.S. Office of Foreign Assets Control (OFAC) Specially Designated Nationals (SDN) List and the U.N. 1267 Sanctions Committee List (the one that South Africa adhered to). The danger was that if a South African bank customer was entering into a transaction with a U.S.-identified suspected terrorist organization or individual, and the customer's transaction was handled in any way by a U.S. bank, the customer's assets could be frozen by that U.S. bank. This caused some banks to simply avoid doing business with U.S. banks whenever possible.

6. (U) Many banks felt as if the FIC reporting obligations were burdensome and hampered their efforts to attract new customers. For example, "Know Your Customer" requirements mean that account holders must present identifying documents to their banking institutions in person or risk having their accounts frozen. The measure was designed to prevent suspicious transactions, but has become an administrative nightmare. At the banks request, the South African National Treasury extended the June 30, 2004 deadline according to a

staggered timetable wherein higher risk customers must meet an earlier deadline and lower risk customers a later deadline. October 31, 2004 was the deadline for banks to report on all nonresident account holders, trusts, and partnerships as well as 20% of high-risk clients. Meeting this deadline was not a problem for the high-risk clients, but it has been for trusts and partnerships, where compliance appears to be very low. Banks have 15 days to before they must freeze the non-compliant accounts or face large fines and prosecution, which could result in imprisonment. The final "Know Your Customer" deadline is September 30, 2006.

#### Legislation Needed -----

17. (U) South Africa still does not have the legal means to deal comprehensively with suspected terrorist financing. Banks report to the South African Reserve Bank (SARB) every six months on any U.N.-designated terrorist activity, but there is no law mandating that they freeze assets unless the activity has been linked to a specific crime in South Africa. South African law also does not currently have cash threshold or cross-border reporting requirements for banks. The Parliamentary Select Committee on Security and Constitutional Affairs is debating draft legislation that recognizes terrorist activity as a threat to the country's safety and mandates the seizure of terrorist assets. This legislation could be approved by the end of the year, and would coincide with the Financial Action Task Force's (FATF) evaluation recommendations for South Africa put forth last year.

#### Institution Building -----

18. (U) When the FIC became independent from the National Treasury in November 2003, it had to start from scratch to create a new agency. It soon found that reaching its goal of hiring 75 employees by March 2005 without a personnel department was not going to happen. Now, with a personnel department in place, the FIC has relaunched its recruitment drive and hopes to surpass its original goal of 75 employees.

19. (U) In the last year, the FIC has made considerable headway in building its capabilities and credibility in the South African law enforcement community. Initially, the FIC's nascent database on suspected criminal activities did not contain much information and law enforcement agencies were not aware of how the FIC might help them with their investigations. The FIC's database is more useful now, enabling the FIC to adopt a proactive approach toward assisting law enforcement agencies by regularly searching for information on a known case to support a criminal investigation. By showing that it can add value to an investigation, the FIC has been gaining credibility among law enforcement agencies. During its first full year of operation, the FIC received 161 information requests from local (105) and international (56) law enforcement agencies. FIC officials expect these numbers to rise.

#### Training: Detection of Terrorist Financing -----

10. (SBU) Ursula M'Crystal, Head of FIC Prevention and Compliance, told Econoff that the FIC welcomed future training opportunities from U.S. agencies, such as the Financial Crimes Enforcement Network's (FinCEN). She specifically requested training on how to detect terrorist financing in the absence of specific intelligence. (Note: M'Crystal also encouraged us to proactively share any intelligence information with the FIC that we can. End note.)

11. (U) FIC's Annual Report highlighted the important contribution that FinCEN's analysis training made to FIC's development. Other international training programs highlighted included the British High Commission's financial crimes investigator training and a future one-year university certificate program in financial crimes investigation. We would add that the videoconference on October 13 with John Byrne of the American Bankers Association on the U.S. Patriot Act attracted more than 100 FIC officials, bankers, and regulators. The event was co-hosted by the Money Laundering Forum and the Johannesburg Consulate and held at Investec (a South African investment bank).

#### Comment -----

12. (SBU) South Africa deliberately chooses to rely upon U.N. designation lists, rather than the U.S. OFAC list. As far as we know, the FIC does not enter our list into its database. We will continue to encourage South Africa to use our lists as much as possible, track pending terrorist financing legislation in Parliament, and report on FIC's progress. The FIC and banking industry have made significant progress in

the detection of financial crimes, but could use some help.  
We believe that the FIC is open to further cooperation with  
FinCEN and to participating in international training  
programs.  
FRAZER